

INTERMEDIATE ACCOUNTING: RAPID REVIEW

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CHAPTER 1 The Canadian Financial Reporting Environment

Role of Financial Reporting

Accounting identifies, measures, and communicates financial information about economic entities to users of financial statements.

Objective of Financial Reporting

- To provide information to users so they can make relevant decisions in allocating resources.
- Information should be free from management bias so that no one stakeholder has an advantage over the other.

Standard Setting

- A common set of standards and procedures is called **generally accepted accounting principles (GAAP)**.
- International GAAP is referred to as **International Financial Reporting Standards (IFRS)**.

Challenges Facing Financial Reporting are:

- globalization of companies and capital markets
- impact of technology
- changing nature of the economy
- increased requirements for accountability

CHAPTER 2 Conceptual Framework Underlying Financial Reporting

Objectives	Fundamental Characteristics	Enhancing Characteristics
Useful information for: <ul style="list-style-type: none">• Resource allocation• Assessing management stewardship	<ul style="list-style-type: none">• Relevance (predictive value, feedback value)• Representational faithfulness (complete, neutral, free from material error or bias)• Completeness (all information of events and transactions)• Neutrality (not favouring one set of stakeholders over another)	<ul style="list-style-type: none">• Comparability• Verifiability• Timeliness• Understandability• Tradeoffs• Constraints

Elements of Financial Statements

Asset: Present economic resources; entity has a right or access to resources

Liability: An economic burden or obligation which is legally enforceable

Equity: Residual interest in assets after deducting liabilities, also described as net worth

Revenue: Increases in economic resources from ordinary business activities

Expense: Decreases in economic resources from ordinary revenue generating activities of the business

Gain/Loss: Increases/decreases in equity from peripheral or incidental transactions.

Comprehensive Income: Net income and all other changes in equity except for owners' investments and distributions.

Foundational Principles

Recognition/ Derecognition	Measurement	Presentation and Disclosure
1. Economic entity	5. Periodicity	10. Full Disclosure
2. Control	6. Monetary Unit	
3. Revenue recognition and realization	7. Going concern	
4. Matching	8. Historic cost	
	9. Fair value	

CHAPTER 3 Accounting Information Systems

- Financial Accounting identifies, records, classifies, and interprets transactions related to an enterprise.
- Debits and credits are used to describe where entries are made.
- The equality of debits and credits is the basis for the double entry system of recording transactions.
- The following equations illustrate how entries are made.

Basic Equation	Assets	=	Liabilities	+	Shareholders' Equity								
Expanded Basic Equation	Assets	=	Liabilities	+	Common Shares	+	Retained Earnings	-	Dividends	+	Revenues	-	Expenses
<i>Debit/Credit Rules</i>	Dr. Cr. + -		Dr. Cr. - +		Dr. Cr. - +		Dr. Cr. - +		Dr. Cr. + -		Dr. Cr. - +		Dr. Cr. + -

Accounting Cycle

- The accounting cycle begins with the identification and measurement of transactions and eventually produces financial statements.
- In accordance with the revenue recognition principle and the matching principle, entries are made to adjust the accounts so that revenue and expenses are matched in the period in which they occur.

- Adjusting entries can be classified as either **prepayments** or **accruals**. Each of these classes has two subcategories as follows:

Prepayments	Accruals
1. Prepaid Expenses. Expenses paid in cash and recorded as assets before they are used or consumed.	3. Accrued Revenues. Revenues earned but not yet received in cash or recorded.
2. Unearned Revenues. Revenues received in cash and recorded as liabilities before they are earned.	4. Accrued Expenses. Expenses incurred but not yet paid in cash or recorded.

- When companies record initial entries through related income statement accounts (i.e., Prepaid items as expenses and unearned revenue as revenue) adjustments must be made to show the correct balance of the account. Using T accounts are recommended in these situations.

Using a Work Sheet

- A work sheet is a multi-column spreadsheet used by accountants to prepare financial statements.
- Work sheets do not replace the financial statements but bring together all aspects of statement preparation from trial balance through to closing entries—all on one spreadsheet.

CHAPTER 4 Reporting Financial Performance

Usefulness	Limitations
Evaluate past performance and profitability	Items that cannot be reliably measured are not reported
Provide a basis for predicting future performance	Income numbers affected by accounting methods used
Help assess risk or uncertainty of achieving future cash flows	Income measurement involves use of estimates

High-quality earnings have the following characteristics:

1. Content

- **Unbiased**, as numbers are not manipulated, and **objectively determined**. Consider the need to estimate, the accounting choices, and the use of professional judgement.
- **Reflect the economic reality** as all transactions and events are appropriately captured.
- **Reflect primarily the earnings generated from ongoing core business activities** instead of earnings from one-time gains or losses.
- **Closely correlate with cash flows from operations**. Earnings that convert to cash more quickly provide a better measure of real earnings as there is little or no uncertainty about whether they will be realized.
- **Based on sound business strategy and business model**. Consider the riskiness of the business, business strategy, industry, and the economic and political environments. Identify the effect of these on earnings stability, volatility, and sustainability.

2. Presentation

- **Transparent**, as no attempt is made to disguise or mislead. It reflects the underlying business fundamentals.
- **Understandable**

Format of the Income Statement

- The major elements:

Revenues: Increases in economic resources

Expenses: Decreases in economic resources

Gains: Increases in equity from incidental transactions

Losses: Decreases in equity from incidental transactions

- Single Step Income Statements show only two main groups: revenues and expenses
- Multiple Step Income Statements separate the company's operating activities from its non-operating activities. It is more informative and more useful.

- Earnings Per Share is an important calculation that sums up the result of the company's operations. It is a key indicator of the company's performance and is calculated as follows:

$$\frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Weighted Average Number of Common Shares Outstanding}}$$

CHAPTER 5 Financial Positions and Cash Flows

Balance Sheet Classifications:

Assets	Liabilities and Shareholders' Equity
Current assets	Current liabilities
Long-term investments	Long-term debt
Property, plant, and equipment	Shareholders' equity
Intangible assets	Capital shares
Other assets	Contributed surplus
	Retained earnings
	Accumulated other comprehensive income/other surplus

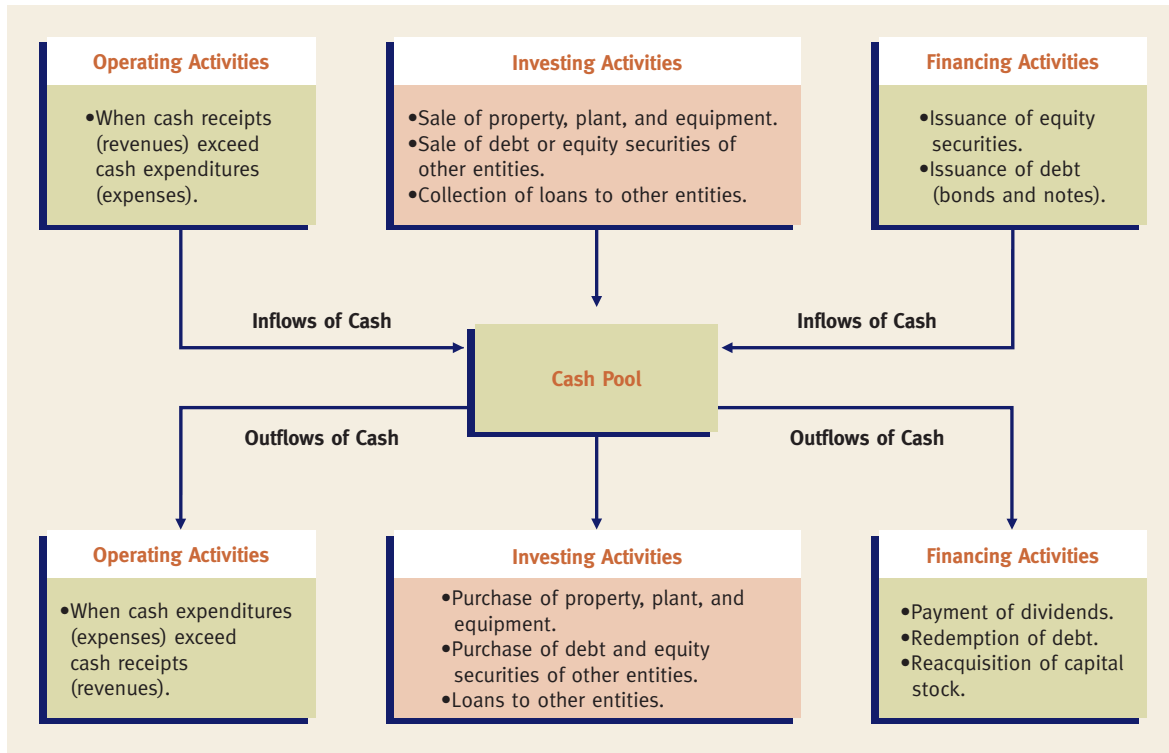
- Accounts are classified so that similar items are grouped together. Parts and subsections of the balance sheet can be more informative than the whole.
- In presenting the balance sheet, the parts and subsections can give users information in a clear and understandable format.
- Where necessary, additional information is reported as disclosures to the statements. Disclosures should be as complete as possible.

Uses and Limitations of the Balance Sheet

Usefulness	Limitations
Analysis of 1. liquidity – the amount of time until an asset is realized or a liability has to be paid;	Most financial assets and liabilities are stated at historical cost .
2. solvency – an enterprise's ability to pay its debts and related interest; and	Judgements and estimates are used in determining many of the items.
3. financial flexibility – the ability to take action to alter the amounts and timings of cash flows so it can respond to opportunities and unexpected needs.	Many items are omitted because they cannot be measured objectively.

Statement of Cash Flows

The cash flow statement presents a detailed summary of all the cash inflows and outflows, or the sources and uses of cash during the period.



Steps to Preparing a Statement of Cash Flows

1. Determine cash provided by operations.
2. Determine the change in cash during the period.
3. Reconcile the change in cash with the beginning and ending cash balances.

Usefulness of the Statement of Cash Flows

Measurement of cash provided by operating activities

- Reasons for positive or negative cash situation
- The sustainability of cash portion over time
- Trends in net cash flow over time

CHAPTER 6 Revenue Recognition

Sales Transactions from a Business Perspective

- Capturing sales transactions
- Deciding when to recognize the transaction
- Deciding how to measure and present it.

Legalities—Law protects the rights of individuals and legal entities

- FOB shipping point – title passes at point of shipment
- FOB destination – title passes when asset reaches customer

Also includes legal obligations like warranty/pension/environmental/securities

Sales Transactions – Recognition and Measurement

Earnings Approach	Risk and rewards are transferred and/or the earnings process is substantially complete Measurability is reasonably assured Collectibility is reasonably assured
Contract-Based Approach	When should the sales contract be recognized on the balance sheet? When should the revenue be recognized on the income statement?

Under either method, the following issues exist:

Measurability	Revenue should only be recognized if the transaction is measurable
Collectibility	Revenue is recognized if it is reasonably sure that it will ultimately be collected

Under the earnings approach there might be issues of special marketing arrangements known as consignment sales. The consignor (e.g., manufacturer) ships merchandise to a consignee (a dealer) who acts as an agent for the consignor and sells the merchandise.

Percentage-of-Completion Method

The percentage-of-completion method recognizes revenue costs and gross profit as progress is made on a long-term contract.

Under the cost-to-cost basis, the percentage of completion is measured by comparing costs incurred to date with the most recent estimate of the total costs to complete the contract. The formula for this is shown here:

$$\frac{\text{Costs incurred to date}}{\text{Most recent estimate of total costs}} = \text{Percent complete}$$

The percentage of costs incurred out of total estimated costs is then applied to the total revenue or the estimated total gross profit on the contract to arrive at the revenue or the gross profit amounts to be recognized to date. The formula is shown below:

$$\text{Percent complete} \times \text{Estimated total revenue (or gross profit)} = \text{Revenue (or gross profit) to be recognized to date}$$

To find the amount of revenue and gross profit that will be recognized in each period, we would need to subtract the total revenue or gross profit that has been recognized in prior periods, as shown below.

$$\text{Revenue (or gross profit) to be recognized to date} - \text{Revenue (or gross profit) recognized in prior periods} = \text{Current period revenue (or gross profit)}$$

Journal entries for the percentage-of completion-method differ depending on whether the earnings approach or contract-based approach is used.

Completed-Contract Method

- Revenue and gross profit are recognized when the contract is completed under the earnings approach.
- Under the contract-based approach the completed-contract method is not used for services rendered.

Loss on Long-Term Contracts:

- Loss in Current Period on a Profitable Contract: Under the percentage-of-completion method only, the increase in the estimated cost requires an adjustment in the current period.
- Loss on an Unprofitable Contract must be recognized in the current period.

CHAPTER 7 Cash and Receivables

Cash: Most liquid assets include cash and cash equivalents like certificates of deposits and short term investments

- Special attention is paid to restricted cash, bank overdrafts, cash in foreign accounts, and cash equivalents

Receivables: Claims that a company has against customers and others

- Recognize receivables when the entity has a legal claim to receive cash
- Measure the receivables initially at its fair value
- After initial recognition, measure receivables at amortized cost

- All receivables must be assessed for indicators of uncollectibility or impairment

Direct Write-off Method	Record bad debt expense in the year it is determined the item will not be collected.	Dr. Bad Debt Expense Cr. Accounts Receivable
1. Allowance Procedure Only	Analyse the Accounts Receivable balances at the end of every month and estimate and assess the estimated uncollectible amount.	Dr./Cr Bad Debt Expense Cr./Dr. Allowance for Doubtful Accounts
2. Mix of Procedures	At the end of every month, management estimates the company's bad debt expense for that month. This estimate is based on the percentage-of-sales approach.	Dr. Bad Debt Expense Cr. Allowance for Doubtful Accounts

A note receivable is similar to an account receivable; however, it is signed by a maker, always has an interest element, and is enforceable.

- Recognition of notes receivable and loans receivable are similar to that of an account receivable
- The main difference between short-term and long-term notes and loans is the length of time to maturity of the interest associated with the asset.

Derecognition of Receivables

Accounts and Notes Receivable are derecognized when:

- Cash is collected
- It is used as collateral in borrowing transactions, known as secured borrowings
- It is sold to a factor (e.g., finance company) which collects the amounts used directly from the customer for a fee

Transfer Criteria for Accounts Receivable

A sale is recognized when all three of the following are met. Otherwise, it is recognized as a secured borrowing:

1. The transferor surrenders control of the receivables.
2. The transferee has the right to pledge the assets or exchange them.
3. There is no repurchase agreement.

CHAPTER 8 Inventory

Inventory Categories

Merchandising Company:

- merchandise inventory

Manufacturing Company:

- raw materials
- work in process
- finished goods

Lower of Cost and Net Realizable Value Model

During any period physical inventory increases and decreases, cost of the same items could be higher or lower. This requires the ending inventory to be valued conservatively at the lower of cost or net realizable value. When calculating the ending inventory, ask these questions:

- Which physical goods should be included?
- What costs should be included?
- What cost formula should be used?
- Has there been an impairment in value of any inventory items?

Inventory Accounting Systems

- A Perpetual system continually tracks changes in the inventory account.
- In a Periodic system, the quantity of inventory on hand is determined at the end of the accounting period.

Cost Formulas

When inventories are priced at cost and many purchases have been made, cost formulas are used to assign inventory cost. Specific Identification is used in situations where items are costly and easily distinguishable (e.g., automobiles).

- Weighted Average is based on the average cost of goods that are available for sale during the period when the periodic inventory method is used.
- Moving Average is calculated each time a new purchase is made so the average cost is constantly updated. This formula is suitable when the perpetual inventory method is used.
- First In, First Out (FIFO) assigns costs based on the assumption that goods are used in the order in which they are purchased.

Lower of Cost and Net Realizable Value

- Cost is not reported on the balance sheet if the inventory is now less than its carrying amount.
- Net realizable value, which is an estimate, is used in this situation.
- The loss of utility of the asset is deducted from revenue.

Estimating Inventory

- When a physical inventory is impractical or impossible, estimates of ending inventory are used.
- This can occur when financial statements are required before the company's year end. Estimation methods used are: 1) the gross profit method and 2) the retail inventory method.

The Gross Profit Method of Inventory Estimation

Beginning inventory, at cost		\$x
Purchase, at cost		<u>\$x</u>
Goods available for sale, at cost		\$x
Sales (at selling price)	\$x	
Less: Gross profit (% × sales)	<u>\$x</u>	
Sales at cost = Estimated COGS		<u>\$x</u>
Estimated Inventory (at cost)		<u><u>\$x</u></u>

NB: The percentage of gross profit is usually known by the company

Financial Statement Effects of Understated Ending Inventory

Inventory errors occur when items are incorrectly included or excluded in determining the ending inventory. Errors affect both the Balance Sheet and Income Statement as shown below.

Statement of Financial Position (Balance Sheet)		Income Statement	
Inventory	Understated	Cost of goods sold	Overstated
Retained earnings	Understated	Net income	Understated
Working capital	Understated		
(current assets			
less current			
liabilities)			
Current ratio	Understated		
(current assets			
divided by			
current liabilities)			

General Rule—Who Reports the Inventory?

Inventory is the buyer's when it is received, except:

F.o.b. shipping point	– Buyer's at time of delivery to common carrier
Consignment goods	– Seller's, not buyer's
Sales with buybacks	– Seller's not buyer's
Sales with high rates of return	– Buyer's, if returns can be estimated
Sales with delayed credit terms	– Buyer's, if collectibility can be estimated

APPENDIX The Retail Inventory Method

	Cost	Retail
Beginning inventory	\$x	\$xx
Purchases	<u>x</u>	<u>xx</u>
Goods available for sale	\$x	\$xx
Deduct sales		<u>xx</u>
Ending inventory at retail		<u>xx*</u>
Ratio of cost to retail (x ÷ xx)		x%
Ending inventory at cost (x% of xx*)		<u><u>\$xx</u></u>

CHAPTER 9 Investments

Basic financial instruments are debt and equity instruments:

- Debt instruments include debt securities, investments in government and corporate bonds, and commercial paper.
- Equity instruments include common, preferred, or other capital stock or shares.

Companies invest either to have

- the return on investment guaranteed

- a special relationship with a supplier or customer

Investments are recognized and measured at their fair value at acquisition.

There are three major models of accounting for investments:

1. Cost/amortized cost
2. Fair Value through Net Income (FVNI)
3. Fair Value through Other Comprehensive Income (FV-OCI)

	Cost/Amortized Cost Model	Fair Value through Net Income Model	Fair Value through OCI Model
At acquisition, measure at:	Cost (equal to fair value + transaction costs)	Fair value	Fair value
At each reporting date, measure at:	Cost or amortized cost	Fair value	Fair value
Report unrealized holding gains and losses (changes in fair value):	Not applicable	In net income	In OCI
Report realized holding gains and losses:	In net income	In net income	Transfer total realized gains/losses to net income (recycling) or directly to retained earnings

For instruments carried at cost/amortized cost	Incurred Loss Model	Expected Loss Model	Fair Value Loss Model
Recognition: Is a review of indicators necessary to trigger the impairment test?	Yes. Test is carried out only if indicated by review of evidence of impairment.	No trigger is needed. Future cash flows are continually reassessed.	Yes. Impairment indicators need to be reviewed to alert entity to change in fair value.
How the revised carrying amount is measured	Uses discounted updated expected cash flows Uses (a) original effective interest rate or (b) current market rate	Uses discounted updated expected cash flows Uses original effective interest rate	Uses fair value Uses current discount rate
How impairment loss is calculated	Uses the carrying amount less PV of cash flows	Uses the carrying amount less PV of cash flows	Uses the carrying amount less fair value
Where impairment loss is recognized	In net income	In net income	In net income
When subsequent impairments are recognized	Recognized when further triggering events occur	Recognized automatically as future cash flows are re-estimated	Recognized automatically through determination of fair value, when triggered

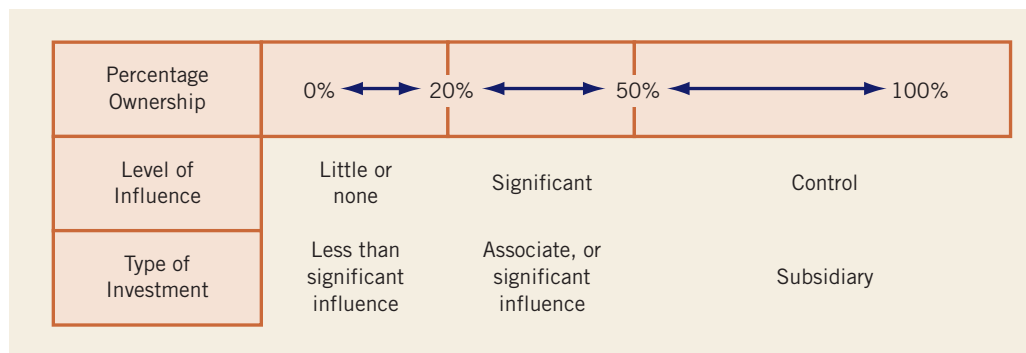
For instruments carried at cost/amortized cost	Incurred Loss Model	Expected Loss Model	Fair Value Loss Model
Basis for recognizing revenue after impairment	Based on the same interest rate used to discount the impaired cash flows	Based on the original effective interest rate	Based on either the original effective rate or current rate used to determine fair value
Whether reversals are permitted	Reversals are required if triggered by a later event, up to amortized cost	Reversals automatically happen when there is a favourable change in credit loss expectations; to limit of full contractual cash flows discounted at original interest rate	Reversals are possible, generally up to amortized cost

Private entity GAAP requires that investments accounted for at cost or amortized cost use the incurred loss model. Impaired cash flows are discounted using the current market rate.

Impairments standards under IFRS were in the process of being worked on as the text went to print. IASB has proposed that investments accounted for at cost or amortized cost use the expected loss model and that investments accounted for at FV-OCI do not need an impairment model and should simply be accounted for at fair value at each balance sheet date.

Investments in Associates

When an investment is made for strategic purposes, management uses control on the investee's policies depending on the percentage of the outstanding voting shares owned. Depending on the percentage owned and the distribution of shares to other investors, management may exercise significant influence over the investee.



CHAPTER 10 Property, Plant and Equipment: Accounting Model Basics

Recognition of Cost Elements (PPE)	
Characteristics	<ul style="list-style-type: none"> held for use in production of goods and services used over more than one accounting period tangible
Recognition	<ul style="list-style-type: none"> associated with future benefits to entity reliably measured
Asset Components	<ul style="list-style-type: none"> separate out components that make up significant portion of total asset cost
Cost Elements	<ul style="list-style-type: none"> include all expenditures needed to acquire asset, bring to location, and make it ready for use
Self-Constructed Assets	<ul style="list-style-type: none"> cost of material, labour and portion of overhead used in manufacturing process
Borrowing Costs	<ul style="list-style-type: none"> expenditures directly related to bringing asset to location and ready for use, added to cost of PPE
Dismantling and Restoration Costs	<ul style="list-style-type: none"> on retiring assets at end of useful life, cost required to dismantle and restore asset (e.g., mining sites). Add to PPE asset cost.

Measurement of Cost

Measurement of Cost	
Cash Discounts	Asset cost is definitely net-of-discount amount if discount is taken. In practice, if the discount is not taken, could be net-of-discount anyway.
Deferred Payment Contracts	Asset cost is the present value of the consideration exchanged on transaction date.
Lump Sum Purchase	Use relative fair market basis to allocate purchase price among assets acquired.
Non-Monetary Exchanges	Fair value of asset acquired should be used to measure acquisition cost. If asset's fair value is not determinable, use fair value of shares given in exchange for asset.
• Share-Based Payments	
Monetary Exchange of Assets	If monetary component of exchange exceeds 10% of fair value of consideration given up or received, a new asset is recorded at FV of asset given up and the gain/loss recognized.

Asset Exchanges	Cost of asset measured by present value (fair value) of cash or other monetary assets given up. Gain or loss is recognized in income.
• Non-Monetary exchanged for cash or other monetary assets	
Non-Monetary exchanged for a new non-monetary asset	Cost of asset acquired is determined by the fair value of the assets (monetary or non-monetary) given up under the fair value of the asset received. Can be more reliably measured. Any gain/loss is recognized.
Contributed Assets and Government Grants	Asset's fair value used to establish "cost" when there is no exchange of assets. Donated assets in the form of government assistance recognized as revenue or reduction of expense.

Measurement After Acquisition

- Cost Model (CM), Revaluation Model (RM) and Fair Value Model (FVM) are currently used.
- The cost model is the most commonly used method under IFRS. This model measures PPE after acquisition at cost less accumulated depreciation and any impairment losses.

Summary – Costs Incurred After Acquisition (PPE)

Type of Expenditure	Accounting Treatment
Additions	Capitalized new asset for asset account
Replacements	Capitalize the cost of replacement
Major overhaul and inspections	a) If the cost of the old asset is known, remove the cost and accumulated depreciation on the asset and recognize the loss b) If the cost of the old asset is not known, it must be estimated and removed from the books, with the loss recognized
Rearrangement and Reinstallation	Are intended to benefit current and future periods and recognized as an expense in the period in which they are incurred
Repairs	Ordinary repairs are expensed in the period in which they are incurred

CHAPTER 11 Depreciation, Impairment and Disposition

Depreciation – A Method of Allocation

	Major Methods
Straight Line	$\frac{\text{Cost} - \text{residual value}}{\text{Estimated service life}}$
– Decreasing Change	Net book value at beginning of year \times Straight-line rate
– Declining-balance	Straight-line rate = $(1 \div \text{useful life in years})$ Note: Residual value not deducted, but depreciation ceases when net book value = estimated residual value.
Activity	$\frac{\text{Cost} - \text{Residual value} \times \text{Units of activity during period}}{\text{Total estimated units}}$

Note: For partial years, a policy may be adopted to simplify calculations. For example: nearest fraction of a year, nearest full month, half-year policies or full year in period of acquisition or disposal.

Impairment

Indicators	– reduction in market value, physical damage/obsolescence change in technology		
Recognition and Measurement	Cost Recovery Model	– Carrying Amount of Asset	> Fair Value equipment
	Rational Entity Impairment Model	– Carrying Amount of Asset	> Recoverable amount

Disposition

Disposition By Sale

- Assets held for sale are not depreciated while they are held
- They meet the criteria for recognition as current assets
- They are reported separately on the balance sheet with disclosures
- Depreciation is taken up to the date of sale
- The carrying amount is compared to the disposal value, gains or losses are recognized

CHAPTER 12 Intangible Assets and Goodwill

Goodwill

Goodwill is the residual amount – the excess of cost over the fair value of the identifiable net assets acquired.

- Step One: Determine fair value of identifiable net assets acquired.
- Step Two: Determine costs of all assets purchased
- Step Three: Determine excess of cost over fair value of identifiable net assets acquired. This amount is equal to cost of goodwill.

Negative Goodwill: If the fair value of identifiable net assets is higher than the cost, the transaction is a bargain purchase resulting in negative good will. The credit resulting from a bargain purchase is taken into Retained Earnings to Other Comprehensive Income.

Goodwill acquired is considered to have an indefinite life and is not amortized. Goodwill is tested for impairment.

Intangible Assets

<p>Intangible Assets Characteristics</p> <ul style="list-style-type: none"> • non-monetary assets • no physical substance • identifiable resulting from legal rights 	<p>Life of Intangibles</p> <ul style="list-style-type: none"> • Assets with finite or limited lives are amortized over their useful lives • Assets with indefinite lives are not amortized
<p>Recognition and Measurement</p>	<p>Specific Intangibles</p> <ul style="list-style-type: none"> • Market related; e.g., trademarks, trade names, newspaper mastheads, internet domain names • Customer-related; e.g., customer lists, order on production backlogs, customer contracts • Artistic-related; e.g., ownership rights to plays, musical works, video and audiovisual material • Contract-based; e.g., licensing agreements, lease agreements, broadcast rights, franchises • Technology-based; e.g., patent technology and trade secrets
<p>Purchased Intangibles</p> <ul style="list-style-type: none"> • expect to bring future benefits to entity • costs can be measured reliably 	<p>Impairment and Derecognition</p> <ul style="list-style-type: none"> • same impairment models apply to limited life intangibles that apply to long-lived tangible assets • indefinite-life intangibles are tested for impairment using a fair-value test • intangible assets are derecognized when they are disposed of or when they are not expected to generate further economic benefits
<p>Internally Developed Intangibles</p> <ul style="list-style-type: none"> • purchased as a single asset (e.g., trademark or patent) • purchased in a “basket purchase” which is allocated based on relative fair value 	
<p>Recognition and Measurement After Acquisition</p> <ul style="list-style-type: none"> • when developed internally, cost measurement is different. Uncertainty must be dealt with based on research phase and development phase • research cost is expensed when incurred • development cost capitalized only when future benefits are reasonably certain 	
<p>Use Cost Model (CM) or Revaluation Model (RM)</p> <p>(CM): Asset carried at cost less accumulated amortization and any accumulated impairment losses</p> <p>(RM): Asset carried at fair value at date of revaluation less any subsequent amortization and subsequent impairment losses</p>	